GOVERNMENT OF INDIA
POWER
LOK SABHA

UNSTARRED QUESTION NO:6493
ANSWERED ON:09.05.2002
DOMESTIC AND FOREIGN INVESTMENTS
RAMPAL SINGH

Will the Minister of POWER be pleased to state:

(a) whether the domestic and foreign investment in power sector has almost came to a halt on account of non-cooperative attitude of the States;

(b) if so, the details thereof;

(c) whether the Government have issued instructions to the States for adopting a co- operative attitude in power sector so that domestic and foreign investment in power generation is increased; and

(d) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF POWER (SHRIMATI JAYAWANTI MEHTA)

(a) & (b) : Though a number of foreign investors have shown interest in setting up power projects in the country, only a few could achieve financial closure. The main factors why most of the projects have not been able to achieve financial closure are mentioned below :

i. The poor financial health of the State Electricity Boards (SEBs), which do not have the financial capability to support more than a few projects in terms of regular reimbursement of bills, opening of letters of credit and escrow accounts.

ii. A bankable escrow cover has been sought by almost all the lenders financing Independent Power producers (IPP).The states do not have sufficient resources to accommodate all the IPPs.In several cases, the escrow-able capacity identified by the State Governments have not been accepted by the financial institutions.

iii. The delay in non-finalization of various contracts such as Power Purchase Agreement (PPA) and Fuel Supply Agreement (FSA) etc. acceptable to all the concerned parties.

iv. Court cases in the form of Public Interest Petitions etc.

(c) & (d) : The Government of India has been assisting, wherever required, to resolveissues coming in the way of setting up of power projects. With a view to improve the financial position of the State Electricity Boards (SEBs), the Government of India has embarked on a policy of reforms and restructuring of the power sector and has signed Memoranda of Understanding (MoU) with many States. The MoUs are a joint commitment of the Center and the States to undertake reforms in a time bound manner. The State Governments` commitment in these MoUs include constitution/operationalisation of State Electricity RegulatoryCommissions, 100% metering, energy audit, reduction of technical and commercial losses, achievement of commercial viability etc.

GOI has committed its support through additional allocation of power fromCentral Generating Stations and financial assistance through Accelerated Power Development and Reform Programme (APDRP) for strengthening of sub-transmission and distribution as well as for renovation and modernization of thermal and hydel power plants. With a reformed and restructured power sector and setting up of regulatory commissions at the Center and states, cash flow to SEBs or successor entities, is expected to improve.

It is expected that with the reforms and restructuring of the power sector, the confidence of investors/IPPs in power sector will improve facilitating greater flow of private investment into the sector.